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Access to Insurance: Call for Input
Strategy & Competition Division
Financial Conduct Authority
25 The North Colonnade
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15 September 2017

Dear Sir/Madam,

Access to Insurance: Call for Input

This is the Financial Services Consumer Panel's response to the Financial Conduct Authority's Access to insurance: Call for Input (June 2017).

FCA evidence of problem

The Call for Input highlights the body of evidence the FCA has gathered over recent years, which shows that consumers who fall outside of the standard risk profiles used by the majority of insurance providers are not being treated fairly.

The Panel highlighted the problem of the use of big data in insurance markets some time ago¹. The FCA's own research² concludes that consumers whose circumstances or pre-existing medical conditions fall outside the parameters of automated algorithms are often not able to find insurance at all. At best, they are offered cover at an inflated price with incomprehensible terms and exclusions. Many consumers are disappointed when they try to claim. Price comparison websites do not help 'non-standard' consumers because firms promote policies on headline price. Suitable policies may not feature at all. Important features such as exclusions and excess fees are hard to find.

The underwriting practices used by firms are opaque. This results in a wide range of premiums. There is no independent verification of whether firms are using relevant statistics to assess risk.

We have not answered the specific questions in the Call for Input because most of them are addressed to the industry. Instead, we would like to highlight the following:

1. **Broader access issues.** By focussing on the problems people with cancer face in obtaining travel insurance, we are concerned that the FCA is not tackling the broader access issues raised in its Occasional Paper of 2016. We agree that the conclusions on travel insurance and cancer can be read across to other pre-existing medical conditions, and to other types of protection product. However, we urge the FCA to develop a set of principles to be applied to access in protection products such as home, health, life, motor etc. These should set out the FCA's expectations as to how firms must address the needs of consumers who fall into non-standard risk categories. For example, there are implications for consumers applying for insurance who disclose mental health issues, even where these have occurred in the past. The TCF principles do not appear to address the needs of these groups of consumers.
2. **Demutualisation of risk is a public policy issue.** The Panel believes there should be a move away from the individual risk model, which excludes vulnerable consumers and limits access to vital financial services for many others. Industry cannot easily do this without regulatory and governmental intervention and support.

¹ https://www.fs-cp.org.uk/sites/default/files/fscp_response_-_big_data_call_for_input.pdf

² <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf>

The increasing demutualisation of risk is a public policy issue. It hinders the FCA's achievement of its objectives, but the FCA cannot act alone. The FCA should use its compelling research to press the government for policy solutions. The government recognised the need for an innovative solution for flood insurance by setting up Flood Re. There are other insurance products for which a degree of mutualisation may be socially desirable in order to enable affordable access to essential financial services.

3. **Potential breaches of Equalities Act 2010.** We believe the FCA should assess the risk models used by firms, to ensure they are treating customers fairly. The models are not transparent: it is not possible to see whether firms are complying with the requirements of the Equality Act 2010. Simply asking them is not sufficient. The basis on which their risk has been priced should be clear to consumers; the FCA needs to make this happen.
4. **Innovation.** The issues of access cannot be solved by industry innovation alone. The Panel believes the underlying problems require a collaboration between industry, regulators and government. In the first instance, industry should be challenged to improve product development and adopt a flexible approach to dealing with non-standard groups. The industry must also use data for positive outcomes instead of exploitation of consumers. People should be able to trust providers to use their information to provide better products for their needs.

Much better signposting is needed. The Money Advice Service currently signposts consumers to the BIBA Find a Broker Service (and the Single Financial Guidance Body appears to have the legislative scope to continue to provide this support to consumers) but this service does not provide consumers with indications of disproportionately high premiums. We believe that the FCA should require providers to signpost consumers to specialist providers where the provider is quoting a premium which is many times higher than the standard quote for that product.

Yours faithfully

Sue Lewis
Chair, Financial Services Consumer Panel